



City of Detroit

OFFICE OF THE AUDITOR GENERAL

Audit of the Mayor's Office

December 2004

City of Detroit

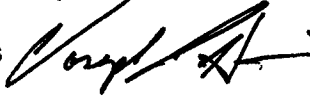
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MEMORANDUM

DATE: February 17, 2005
TO: Honorable City Council
Mayor Kwame M. Kilpatrick
FROM: Joseph L. Harris
Auditor General 
RE: Audit of the Mayor's Office

Attached for your review is our report on the Audit of the Mayor's Office.

This report includes a compilation of our initial audit work; the results as reported in the *Audit of the Mayor's Office Imprest Cash Account* report, dated July 29, 2004, and the *Outstanding Travel Authorization and Reimbursement Forms* report, dated September 21, 2004; and our follow-up work. This report contains our audit purpose, scope, objectives and methodology; background; our audit findings and recommendations; and the response from the Mayor's Office.

**Audit of the Mayor's Office
December 2004**

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* Findings appeared in the prior audit report dated September 11, 1998

EXECUTIVE SUMMARY

The Office of the Auditor General (OAG) conducted an audit of the adequacy of the Mayor's Office internal control procedures over cash receipts, payroll, disbursements, fixed assets and imprest cash; compliance with year-end closing procedures; and followed up on the status of the prior audit findings. A summary of our complete audit results follows:

Finding 1 – Improve Internal Controls Over the Mayor's Office Imprest Cash Account

In our initial audit work, we found shortcomings in the application of the City's Imprest Cash procedures:

- Travel advances were made from the Imprest Cash account.
- Checks received from various outside sources that should have been deposited into a Treasury Division account were deposited into the Imprest Cash account.
- Check requests along with a schedule of cash and check expenditures were submitted to Accounts Payable for reimbursement usually with no receipts attached.
- Reconciliations of the Imprest Cash checking account were not completed, which resulted in missing deposits and unauthorized cash withdrawals going undetected for nearly 20 months.

Based on our review, we concluded that the former imprest cash custodian and two other former mayoral staff embezzled between \$150,000 and \$200,000. They were prosecuted and subsequently convicted.

The co-mingling of imprest cash funds with other funds by depositing checks from outside sources and travel advance reimbursements into the Mayor's Office Imprest Cash account caused the imprest cash balance to exceed the authorized limit. As a result, the Finance Department – Project Administration Division processed an adjustment of over \$6,000 to reduce the Mayor's Office imprest cash balance to the authorized limit.

The Finance Department implemented new procedures for Imprest Cash accounts in July 2004. The Mayor's Office also implemented new procedures; however, it is still not in full compliance with the City's Imprest Cash procedures. The Mayor's Office has discontinued advancing travel expenses from the Imprest Cash account and purchase slips/receipts are retained to substantiate the expenditures. Mayor's Office personnel, other than the custodian, have been reconciling the Imprest Cash account. However, a check from an outside source that should have been deposited to a Treasury Division account and several travel advance/reimbursement checks were improperly deposited into the Imprest Cash account. The Finance Department has taken corrective action to verify the signatures on the check requests and to ensure that the reimbursement requests for the Imprest Cash account are supported by invoices.

We recommend that the Mayor's Office implement internal controls over cash receipts to ensure that other departmental funds are not commingled with the imprest cash funds and to fully comply with the City's Imprest Cash Manual. We also recommend that the Finance

Department monitor compliance with the procedures, and monitor the financial system for any unusual expenditure amounts that could be attributed to a misuse of funds.

Finding 2 – Reconcile Advances to Amounts Paid Back

Travel advances were made from the Mayor's Office Imprest Cash account and repayments of the travel-related advances were deposited into the Imprest Cash account without reconciling to the amount advanced. As a result, the City has made double payments on airfare and lodging, as most travel advance/reimbursement checks deposited to the account include airfare and lodging that were actually charged to the Mayor's credit card. By depositing travel advance/reimbursement checks into the Imprest Cash account, the Mayor's Office imprest cash funds were increased over the authorized limit. By not reconciling the amount of the travel advance to the amount repaid, there is no assurance that all amounts advanced have been repaid.

We recommend that the Mayor's Office perform a reconciliation of the travel advance amount to the amount repaid.

Finding 3 – Obtain the Finance Department's Pre-Approval for Food and Refreshments

From January 2002 to September 2004, a total of \$35,031.30 was reimbursed to the Imprest Cash account for meals. We found that the requests to reimburse for city-paid meals were not made by an authorized person, nor was the purchase of these meals pre-approved by the Finance Department. The Finance Department's pre-approval of these purchases provides assurance that the purchase of food and refreshments is not made for the benefit of a specific individual or class of persons without a specific public purpose.

We recommend that the Mayor's Office submit authorization requests for purchasing food or refreshments to the Finance Department for pre-approval before any purchases are made. We also recommend that the Finance Department ensure that no reimbursements for meals are made without its pre-approval.

Finding 4 – Certify and Clear Outstanding Travel Advances

In our initial audit work, we determined that the Mayor's Office had 141 outstanding travel advances, totaling \$127,822.10, dating as far back as January 2002. This finding has been noted in the last four audit reports of the Mayor's Office. However, we found that non-compliance with the City's policies and procedures for travel was much more prevalent than in the past. When the submission of the certification of travel expenses to the Budget Department is delayed or neglected, the likelihood of losing needed supporting documentation increases.

In our follow-up work, we determined that, out of the 141 outstanding travel advances, 134 travel advances had been reconciled and certified. The remaining seven travel advances are still outstanding and there are four new outstanding travel advances.

We recommend that the Mayor's Office implement procedures to ensure full compliance with the City's travel policies and procedures.

Finding 5 – Comply with the City's Guidelines for the Use of a Credit Card

Over \$16,000 or 8%, of the expenditures charged to the Mayor's credit card for the period January 2002 to September 2004 were missing purchase invoices or receipts. Also, the Mayor's credit card was billed over \$2,000 in late fees and finance charges over the 33-month audit period. Due to the lack of purchase slips/receipts, the legitimacy of the credit card purchases cannot be validated.

We recommend that the Mayor's Office retain all credit card purchase slips/receipts to support the Mayor's purchases and submit payment requests to the Finance Department in time for prompt payment. We also recommend that the Finance Department make the credit card payments in time to avoid any late fees and finance charges.

Finding 6 – Comply with the City's Purchasing Ordinance for Purchases Over \$25,000

The Mayor's Office made a purchase, totaling \$44,000, from a vendor that was not in compliance with the City's Purchasing Ordinance. Two invoices totaling \$44,000, were processed for payment by the Mayor's Office without City Council's approval. When the City Council does not have an opportunity to review and approve the City's expenditures as required by ordinance, complete and proper oversight of the use of public funds is lacking.

We recommend that the Mayor's Office comply with the City's Purchasing Ordinance.

Finding 7 – Safeguard the Neighborhood City Halls' Cash Receipts

There are internal control weaknesses over cash receipts at the Neighborhood City Halls Central Office. Cash is deposited only once a week; a cash register is not used; City of Detroit receipt forms are not issued to all customers; checks and money orders are not restrictively endorsed upon receipt; and the file drawer used to store cash receipts is not locked at all times. By not complying with the City's policies and procedures for cash receipts handling, cash, the most liquid asset, is susceptible to borrowing and theft.

We recommend that the Neighborhood City Halls comply with Finance Directive #20 – Cash Handling Procedures.

Finding 8 – Improve Internal Control Over the Neighborhood City Halls' Imprest Cash Account

The Neighborhood City Halls did not comply with the procedures listed in the City's Imprest Cash Manual. The Neighborhood City Halls did not perform independent quarterly counts of its imprest cash funds and its imprest cash funds did not balance to the authorized amount. Also, changes in the custodian were not reported to the Finance Department. As a result, there is a greater opportunity for funds to be misused, lost or stolen.

We recommend that the Neighborhood City Halls become familiar with the City's Imprest Cash Manual and fully comply with the Manual. We also recommend that the Finance Department periodically audit the Imprest Cash account and monitor compliance with the imprest cash policies and procedures.

Other Non-Compliance Issue

The Mayor's Office did not periodically update the Detroit Resource Management System (DRMS) for physical asset additions and retirements and the Mayor's Office did not reconcile its book balance to the year-end physical inventory count for fiscal years 2003 and 2004.

We recommend that the Mayor's Office take necessary actions to ensure full compliance with the City's established policy.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose:

This audit was performed under the Office of the Auditor General's (OAG) charter mandate to audit financial transactions of all City agencies. The OAG performed the audit of the adequacy of the Mayor's Office internal control procedures over cash receipts, payroll, disbursements, fixed assets and imprest cash; compliance with year-end closing procedures; and a follow-up on prior audit findings.

Audit Scope:

The OAG performed an assessment of the Mayor's Office internal control procedures for transactions of cash receipts, payroll, disbursements, fixed assets and imprest cash and determined that there are certain weaknesses in the system of control. We focused our audit on the weaknesses discovered during the assessment, the status of the prior audit findings and compliance with year-end closing procedures.

The OAG began the audit of financial transactions in the Mayor's Office in November 2003. OAG staff discovered a questionable volume of activity in the Imprest Cash bank account, and requested additional information on the account transactions from Mayor's Office staff. As a result of the request, the City's Chief Financial Officer (CFO) contacted the OAG. The CFO indicated that there was an ongoing investigation into suspected fraudulent activities that centered on the Imprest Cash account. An outside accounting firm had been hired to audit the account and the information obtained was turned over to a law enforcement agency. In accordance with Government Auditing Standard 4.20, the OAG deferred further work on the engagement until the independent investigation was completed.

The OAG resumed its audit in June 2004 after the Finance Department's investigation was completed. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review within the last three years.

Audit Objectives:

Our audit objectives were to determine whether the Mayor's Office implemented the prior audit recommendations or otherwise resolved the findings, and to evaluate the adequacy of the Mayor's Office internal controls over the major financial reporting processes.

Audit Methodology:

To accomplish the audit objectives, our audit work included the following:

- Review of City ordinances, Finance Directives and other pertinent information relating to the Mayor's Office;
- Interviews with appropriate personnel in the Mayor's Office, the Finance Department and the Budget Department;
- Observation and testing of internal control processes and procedures; and
- Analysis of imprest cash transactions, travel advances and credit card purchases.

BACKGROUND

The Mayor, as the chief executive of the City, has control of and is accountable for the executive branch of City government. Administrative authority for the implementation of programs, services and activities of City government is vested exclusively in the executive branch.

The Neighborhood City Halls (NCH), as a liaison between the Mayor's Office, City departments and citizens, were established to provide cost-effective services to Detroit residents, to enhance communication between City officials and citizens, and to stimulate community awareness. There are ten locations throughout the City and they are included in the budget of the Mayor's Office. The Mayor's Office provides direct management of the Neighborhood City Halls.

The following is a summary of the net budgeted expenses and revenues of the Mayor's Office and the Neighborhood City Halls for fiscal years ended June 30, 2002 through 2004, and the net actual expenses and revenues for the same periods.

Fiscal Year Ended June 30 – (In Thousands)						
	2002		2003		2004	
	Budget	Actual	Budget	Actual	Budget	Actual
General Fund Group						
Executive Office						
Office of the Mayor	\$ 6,822	\$ 6,004	\$ 7,247	\$ 6,041	\$ 6,999	\$ 6,225
Mayor's Residence	282	70	325	250	154	88
Reserve Executive Office	399	0	0	0	0	0
Executive Office Total	\$ 7,503	\$ 6,074	\$ 7,572	\$ 6,291	\$ 7,153	\$ 6,313
Neighborhood City Halls						
NCH - Administration	\$ 748	\$ 548	\$ 829	\$ 646	\$ 832	\$ 629
NCH	2,916	2,441	3,109	2,410	3,557	3,017
Reserve NCH	126	0	0	0	0	0
NCH Totals	\$ 3,790	\$ 2,989	\$ 3,938	\$ 3,056	\$ 4,389	\$ 3,646
General Fund Group Total	\$11,293	\$ 9,063	\$11,510	\$ 9,347	\$11,542	\$ 9,959
Special Revenue Fund Group						
Office of Neighborhood Commercial Revitalization	\$ 0	\$ 9	\$ (9)	\$ 26	\$ 49	\$ 2
Special Revenue Fund Group Total	\$ 0	\$ 9	\$ (9)	\$ 26	\$ 49	\$ 2
Agency Appropriation Total	\$11,293	\$ 9,072	\$11,501	\$ 9,373	\$11,591	\$ 9,961

AUDIT FINDINGS AND RECOMMENDATIONS

Findings marked with an asterisk (*) signify that the finding and related recommendation appeared in the previous Auditor General report. The date shown in parenthesis indicates the audit report in which the recommendation or part thereof first appeared.

1. Improve Internal Control Over the Mayor's Office Imprest Cash Account

In July 2004, the OAG audited the Mayor's Office Imprest Cash account for the period January 2002 to September 2003. During our review, we noted shortcomings in the application of the City's Imprest Cash procedures. After the *Audit of the Mayor's Office Imprest Cash Account* report, dated July 29, 2004, was issued, we reviewed additional Imprest Cash account check reimbursement requests that had not been provided to the OAG by July 29, 2004. The revised and updated results follow:

- Reconciliations of the Imprest Cash checking account were not completed. This resulted in missing deposits and unauthorized cash withdrawals going undetected for nearly 20 months. Of the \$180,992.81 check requests for imprest cash fund reimbursements, \$23,013.61 was not deposited into the Imprest Cash checking account. There were cash withdrawals from the account totaling \$89,860.45.
- Checks received from various outside sources that should have been deposited into a Treasury Division account and from travel advances/reimbursements, totaling \$33,125.28, were deposited into the Imprest Cash account.
- Travel advances were made from the Imprest Cash account rather than being processed through the Budget and Finance Departments. Advances totaling \$4,586.45 were made to eight employees over the 20-month period reviewed.
- Checks were written to Mayoral appointees as well as to outside vendors totaling \$113,327.63. Most receipts were not retained; therefore, the legitimacy of most of the expenditures cannot be validated. Check requests along with a schedule of cash and check expenditures were submitted to Accounts Payable for reimbursement; most of the time no receipts were attached. We determined that:
 - \$33,674.90 was submitted for fictitious expenditures. The items were listed on the schedule as checks, however no such checks were transacted.
 - \$94,118.87 was submitted to Accounts Payable as check payments for reimbursements. These expenditures had been paid with checks totaling \$69,992.37 from the Imprest Cash account.
 - \$32,018.04 of expenditures were purportedly paid by cash, but there were no receipts to support these expenditures.
 - The Mayor's Office received reimbursement for 19 checks more than once.

The City's Imprest Cash Manual dictates the procedures for maintaining an Imprest Cash account. Highlights from the Manual that pertain to the audit of the Mayor's Office Imprest Cash account follow:

- Monthly bank statements and cancelled checks should be sent to a person other than an authorized signatory or a custodian of the imprest cash fund. All checking

accounts must be reconciled with the bank statement monthly by someone other than an authorized signatory or the custodian.

- The imprest cash funds must not be co-mingled with other department funds. Travel advances for official business trips cannot be made from imprest cash funds without prior approval or special arrangement with the Finance Director.
- To enable the custodian to maintain the fund, the custodian is assigned a vendor number in the City's accounts payable system. Reimbursement of the imprest cash fund is accomplished by submission of a check request, a Schedule of Imprest Cash Purchases (Form C of D 7 c.5), and the original invoices to Accounts Payable.
- To maintain a supply of cash on hand, a check for the amount of cash needed should be written to the employee responsible for receiving and disbursing the cash. The payee and payer should not be the same. Writing checks to "Cash" is not permitted. The amount of cash should be a fixed amount. Reimbursement of the cash on hand is made by check for the exact amount of the cash purchases.

Based on our review of the transactions and events that occurred during the period January 2002 through September 2003, we concluded that the former imprest cash custodian and two other former mayoral staff members embezzled between \$150,000 and \$200,000.

Former mayoral staff colluded to embezzle funds from the Mayor's Office Imprest Cash Fund. Former staff members involved in the scheme authorized each other's payment requests, wrote checks to each other, falsified information on check requests, forged authorizing signatures, and commingled funds in order to defraud the City. The former staff members involved were prosecuted and criminal convictions were obtained against them.

During the time of the embezzlements, the Mayor's Office did not enforce the internal controls that are established in the City's Imprest Cash Manual. These controls would have caused the embezzlement to be detected earlier. Such controls include monitoring, reconciliation and the segregation of duties.

Finally, the Accounts Payable Division approved payments for check requests that lacked the proper supporting documentation, contained forged signatures, were in excess of the authorized limit, and were not made in accordance with the approval amounts established in Finance Directive #106 – Imprest Cash Purchase Limitation, as revised May 1, 1996.

Results of the Follow-Up Work

The former imprest cash custodian and two other mayoral staff members, who were convicted of embezzlement, separated from the City at the end of 2003. A new custodian and authorized signatories assumed custody of the Mayor's Office Imprest Cash account. Also, the Finance Department implemented new procedures for the City's imprest cash funds. In November 2004, the OAG conducted a follow-up review of the Mayor's Office Imprest Cash account for the period October 1, 2003 to August 31, 2004 and determined the following:

- A \$1,167 cash withdrawal was made by the former imprest cash custodian on October 3, 2003.
- The Finance Department has taken corrective action to verify the signatures on the check requests with those on the Authorized Signature Record and to ensure that reimbursements of the Imprest Cash account were supported by invoices since the beginning of 2004.
- During the follow-up period, reimbursements were requested for a total of \$11,571.38 imprest cash purchases. Invoices supported \$9,528.05 of the purchases; the remaining \$2,043.33 imprest cash reimbursements were made without original receipts. Of the \$2,043.33 reimbursements without receipts, 1,997.84 was requested in November 2003; \$48.49 was requested in 2004. The Mayor's Office subsequently provided the OAG with copies of the purchase slips/invoices to support the \$2,043.33 imprest cash purchases.
- The check amounts submitted for reimbursement mostly match the check amounts actually disbursed from the Imprest Cash account. One check, #1568, was submitted for reimbursement in June 2004 for \$127.32, but the check was actually disbursed for \$150 in January 2004.
- A \$5,000 check from an outside source that should have been deposited into a Treasury Division account was deposited to the Imprest Cash account in February 2004.
- There were four imprest cash disbursement checks made payable to "Cash," totaling \$917.18 in 2004.
- Travel advance reimbursement checks totaling \$5,885.50 continued to be deposited into the account until July 2004. We noted no travel advances from the Imprest Cash account during July and August.
- Mayor's Office personnel other than the custodian have been reconciling the Imprest Cash account since June 2004. The account has been reconciled up to date; however, the reconciliations were not signed and were not reviewed by someone other than the person performing the reconciliation.

The commingling of imprest cash funds with other funds by depositing checks from outside sources and travel advance reimbursements in the Mayor's Office Imprest Cash account caused the imprest cash balance to exceed the authorized limit. As a result, the Finance Department – Project Administration Division processed an adjustment of over \$6,000 to reduce the Mayor's Office imprest cash balance to the authorized limit.

We recommend that the Mayor's Office use the Imprest Cash account in accordance with established Imprest Cash policies and procedures and implement internal controls to ensure that other departmental funds are not commingled with the imprest cash funds, no longer write checks payable to "Cash," follow procedures related to handling outstanding checks, and assign someone other than the custodian and the person performing the reconciliation to review the monthly bank reconciliation.

We also recommend that the Accounts Payable Division require original receipts for the reimbursement of all expenditures and monitor purchases submitted for imprest cash reimbursement to determine whether they meet the City's established policy. We also

recommend that Accounts Payable monitor DRMS object codes for reasonableness and report all instances of non-compliance or any unusual transactions to both the Finance Director and to the respective Department Director.

Furthermore, we recommend that the Finance Department monitor compliance with the procedures, and monitor the financial system for any unusual expenditure amounts that could be attributed to a misuse of funds.

2. Reconcile Advances to Amounts Paid Back

In our review of the Mayor's Office Imprest Cash account activities from January 2002 to September 2004, we noted travel related checks from the City were deposited into the Imprest Cash account without reconciling to the amount advanced from the Imprest Cash account. Our analysis disclosed:

- A total of \$6,370.45 in imprest cash funds was advanced to mayoral and executive protection staff for travel.
- A total of \$24,193.40, including the City's travel advance or reimbursement checks and the travelers' personal checks, was deposited into the Imprest Cash account.
- Most travel advance/reimbursement checks deposited into the account were for airfare and lodging that were actually charged to the Mayor's credit card, rather than advanced from the account.

Sound accounting practice requires that the amount advanced from an account be equal to the amount repaid to the account.

By depositing travel advances/reimbursements on airfare and lodging that were charged to the Mayor's credit card, the Mayor's Office imprest cash funds increased over the authorized limit and there were cases where the City made double payments on airfare and lodging. Without a reconciliation between the travel advance amount and the amount paid-back, there is no assurance that all amounts advanced have been repaid.

We recommend that the Mayor's Office perform the reconciliation of any advance amount to the amount repaid.

3. Obtain the Finance Department's Pre-Approval For Food and Refreshments

From January 2002 to September 2004, a total of \$35,031.30 was reimbursed to the Imprest Cash account for meals. The check requests and supporting documents submitted to the Accounts Payable Division for reimbursements indicate that none of those purchases were pre-approved by the Finance Department.

The City's Finance Directive #145 - Guidelines for the Purchase of Food and Refreshments by Departments for City of Detroit Functions states that the purchase and serving of food and refreshments for a City function may only be approved if the expenditure is authorized by law and is for a public purpose. Several guidelines stipulated in this Finance Directive for the purchase of food and refreshments by City departments follow:

- Authorization requests, approved by the Director or Deputy Director of the department making the request for purchasing food and refreshments, must be made in writing to the Finance Director prior to making commitments with any vendor(s).
- The Finance Department – Project Administration must receive authorization requests at least five business days prior to the date for which funds are being requested. This five-day rule may be waived by the Finance Department in extreme instances. However, under no circumstances may a purchase of food and refreshments be made without the pre-approval of the Finance Department.
- Check requests or imprest cash reimbursement requests must be submitted with evidence of the Finance Department's pre-approval, which serves as authority to the Accounts Payable Division to process payments for food and refreshments.
- "The authorized funding level of the Imprest Cash account for the requesting department will be reduced by the amount of any unauthorized or improper purchases of food or refreshments. On the second occurrence, the authorized level of the imprest cash fund of the department will be reduced by fifty percent, and no further requests to purchase food and beverages will be authorized for that department."

By not complying with Finance Directive #145, the purchase of food and refreshments may be made for the benefit of a specific individual or class of persons without a specific public purpose.

Both the Mayor's Office and the Finance Department did not enforce the internal controls over the purchase of food and refreshments as stipulated in Finance Directive #145. Furthermore, the Accounts Payable Division approved reimbursements of the meal purchases without the Finance Department's pre-approval.

We recommend that the Mayor's Office comply with Finance Directive #145 by submitting authorization requests for purchasing food or refreshments to the Finance Department for pre-approval before any purchases are made.

We also recommend that the Finance Department enforce Finance Directive #145 by ensuring that no reimbursements for food or refreshments are made without the Finance Department's pre-approval and by enforcing sanctions stipulated in this Directive for non-compliance.

***4. Certify and Clear Outstanding Travel Advances**

(June 30, 1989) In September 2004, we reviewed the Mayor's Office Outstanding Travel Report for December 2003 created by the Budget Department. Our review disclosed that the Mayor's Office had 141 outstanding travel advances, totaling \$127,822.10, dating as far back as January 26, 2002. As of August 2004, certifications of six of 141 advances, totaling \$5,610.90, had been submitted to the Budget Department.

The following is the breakdown of the 135 outstanding travel advances, which had not been certified:

<u>Expenditure Type</u>	<u>Amount</u>
Meals and Incidentals	\$ 13,102.20
Lodging	45,390.45
Air Fare	45,113.05
Ground Transportation	3,185.00
Registration	14,702.50
Car Rental	718.00
Total	<u>\$ 122,211.20</u>

A breakdown of the recipient of those advances is as follows:

<u>Expenditure Type</u>	<u>Amount</u>
Travel Agent Paid	\$ 44,507.05
Employee Advances	57,817.15
Hotel Deposits	7,969.00
Pre-paid Registration Fees	11,182.50
Other	735.50
Total	<u>\$ 122,211.20</u>

This finding has been noted in the last four audit reports on the Mayor's Office, however, we found that non-compliance with Finance Directive #136 – Policy and Procedures for Travel on City Business, amended on September 11, 1995 and with Budget Directive 01-2 – Employee Travel Procedures, effective on November 1, 2001 was much more prevalent than in the past.

<u>Report Date</u>	<u>Period Covered</u>	<u>Outstanding Advances</u>
Dec. 2004	Jan. 2002 – Dec. 2003	7
Aug. 2004	Jan. 2002 – Dec. 2003	135
Sept. 1998	Sept. 1996 – July 1998	6
Dec. 1993	Back to May 1993	3
June 1991	Back to 1985	10
June 1989	No period listed	Not stated

Finance Directive #136 establishes the policy and procedures for travel on City business. Budget Directive 01-2 requires employees to prepare a certification of expenses within five working days of return from travel, and to submit the certification to the Budget Department.

The certification should be accompanied by original receipts for the expenditures that were approved on the Travel Authorization and Reimbursement Form. Receipts are required for lodging, business miscellaneous, transportation, registration fees, City or private automobile and ground transportation expenditures.

When the submission of the certification of travel expenses to the Budget Department is delayed or neglected, the likelihood of losing needed supporting documentation increases. The process of certification of expenditures and the submission of the original travel receipts serve to provide assurance to the City and to the public that the costs incurred were for valid purposes.

We recommend that the Mayor's Office implement procedures to ensure full compliance with Budget Directive 01-2, including the submission of travel expenditure receipts and reimbursement certification forms to the Budget Department within five working days of return from travel.

We also recommend that the Budget Department expand its program whereby returning travelers receive a "tickler" reminding them of the necessity of submitting original receipts and their certified travel forms within five business days, send a list of items appearing on the Open Log of Travel Authorization and Reimbursement Forms to the agency director monthly, and pursuant to Budget Directive 01-2, do not authorize the advance of travel funds to employees who have outstanding uncertified travel forms.

Results of the Follow-Up Work

We reviewed the Mayor's Office Outstanding Travel Report updated by the Budget Department. Our review disclosed that, of the 141 travel advances previously outstanding, 134 travel advances had been reconciled and certified. The remaining seven travel advances are still outstanding. The employee advances for these seven outstanding items were \$5,672.96.

Our review also disclosed that the Mayor's Office has four new outstanding travel advances. The employee advances for these four outstanding items are \$3,777.

5. Comply with the City's Guidelines for the Use of a Credit Card

We reviewed the Mayor's credit card statements and supporting invoices/receipts for the period January 2002 to September 2004 and we noted the following:

- About 8% of the purchases, totaling \$16,527.64, charged to the Mayor's credit card were missing purchase invoices or receipts. The purchases without supporting documents included a January 28, 2002 transaction, in which the Greater New Orleans Sports Foundation billed the Mayor's credit card for \$11,644.84. More than two years later, on February 24, 2004, the \$11,644.84 was credited with the notation "Credit For Fraud Sale." However, on April 13, 2004, the entire amount of \$11,644.84 was re-debited to the Mayor's credit card with the notation "Rebill Valid Greater N O Sports FND."
- Over the 33-month audit period, for 22 months, the Mayor's credit card was billed late fees and/or finance charges, totaling \$2,084.63.

The City's Finance Directive #137 – Finance Directive Governing Credit Card Transactions and the Use of City-Issued Credit Card by Officers and Employees, dated September 1, 1996, regulates the use of City-issued credit cards:

For all purchases made with a City credit card, each authorized user must retain and submit in accordance with this Finance Directive all purchase

slips/receipts which must include the date and cost of the purchase, and a notation indicating the official business for which the purchase was made.

All payment requests for credit card billing statements must be submitted to the Finance Department for payment no later than five days following the authorized card user's receipt of the statement. Finance charges must be avoided.

City officers and employees have a recognized fiduciary duty to expend public funds only for a public purpose. Due to the lack of purchase slips/receipts, the legitimacy of about \$16,500 of credit card expenditures cannot be validated.

The Mayor's Office did not enforce the internal controls that are established in Finance Directive #137 by retaining and submitting all credit card purchase slips/receipts for payment requests. At the same time, the Finance Department approved payments for requests that lacked the proper supporting documentation.

We recommend that the Mayor's Office retain all credit card purchase slips/receipts to support the Mayor's purchases, and submit the credit card statements with supporting purchase slips/receipts and notation to the Finance Department.

We also recommend that the Finance Department enforce Finance Directive #137 by making the credit card payments in time to avoid any late fees and finance charges.

6. Comply with the City's Purchasing Ordinance for Purchases Over \$25,000

The Mayor's Office made a purchase from a vendor that was not in compliance with the City's Purchasing Ordinance. The Mayor's Office paid \$44,000 without City Council approval, to PSI Productions & Events Planning, Inc. for media equipment rental and related labor for "The State of the Black Union IV – The Black Church: Relevant, Repressive, Or Reborn?" held on February 8, 2003 at Cobo Hall.

Since two checks, one for 24,000, and another for \$20,000 were issued to the contractor, the transaction averted the \$25,000 threshold that would have subjected it to City Council scrutiny.

The Mayor's Office could not document how the event provided services to City citizens and that the expenditures were necessary, reasonable or in any way a responsible use of the City's public funds.

Section 18-5-5 of the City's Purchasing Ordinance mandates that contracts and amendments for goods and services over the value of \$25,000 shall not be entered into without City Council's approval. City employees have a recognized fiduciary duty to expend public funds only for purposes that are necessary and reasonable to carry out city government functions.

When the City Council does not have an opportunity to review and approve the City's expenditures as required by ordinance, complete and proper oversight of public funds is lacking.

The employees from the Mayor's Office who prepared and submitted the invoices for payment were terminated prior to the start of our review of vendor payments. Current Mayor's Office management informed us that they believe these two invoices are valid city expenditures because both the Mayor and every City Council member attended the convention.

We recommend that the Mayor's Office comply with the City's Purchasing Ordinance 18-5-5 by implementing proper control over disbursements and instructing its staff on the proper use of purchase requisitions and purchase orders.

*** 7. Safeguard the Neighborhood City Halls' Cash Receipts**

(September 11, 1998) At the Neighborhood City Halls (NCH) Central Office, cash, checks and money orders are received in payment for dog licenses and Department of Transportation bus passes. Parking meter cards are sold at the Central Office. Dog licenses, bus passes and parking meter cards are tracked by serial number by the Central Office, the administrative office and the issuing department. Reports of the items sold are faxed to the issuing departments regularly. In our prior audit report that was issued in September 1998, we noted that the controls surrounding the cash receipts and inventory of the Neighborhood City Halls needed improvement. During this audit period, we reviewed the Neighborhood City Halls Central Office's cash receipts and inventory practices and procedures and discovered the following weaknesses in the controls over cash receipts:

- Cash is deposited only once a week.
- A cash register is not used and City of Detroit receipt forms are only issued upon the customers' requests, instead of to all customers.
- Checks and money orders are not restrictively endorsed upon receipt.
- The file drawer used to store cash receipts is not locked at all times.

Finance Directive #20 – Cash Handling Procedures, dated December 5, 2002, dictates the City's uniform procedures for handling cash. Excerpts of the Directive are listed below:

- All departments should deposit cash and checks in the bank and record those receipts in DRMS within 48 hours of receipt.
- Cash boxes should be kept locked when not in use, and be kept in locations that are not accessible to unauthorized persons.
- Accessibility of cash should be restricted to those specifically designated to handle cash.
- If a cash-registering device, such as a cash register, is not used, the receipt of cash should be recorded using a formal City of Detroit receipt form.

Without complying with the City's policies and procedures for cash receipts handling, cash, the most liquid asset, is susceptible to borrowing and theft. The prompt deposit of cash, as required by Finance Directive #20, aids in the prevention of theft. Additional internal controls that aid in preventing the diversion of cash receipts for personal use include

restrictively endorsing checks and money orders such as marking "For Deposit Only," and issuing serially numbered receipts for each sale transaction.

Departmental representatives indicated that the amounts of cash receipts collected are small and do not warrant daily deposit, and that its practice of reporting the numbered items sold to the issuing department on a daily or weekly basis is a mitigating control for its non-issuance of customer receipts.

We recommend that the Neighborhood City Halls comply with Finance Directive #20 by restricting access to cash, issuing formal City of Detroit receipts for all purchases, and depositing monies in the bank and recording receipts in DRMS within 48 hours. In accordance with the Directive, if the NCH determines that its circumstances do not permit compliance with this directive, the NCH should request a deviation from the policy from the City's Chief Financial Officer.

8. Improve Internal Controls Over the Neighborhood City Halls' Imprest Cash Account

The Neighborhood City Halls (NCH) did not comply with the procedures listed in the City's Imprest Cash Manual as noted by the following conditions:

- The NCH imprest cash funds did not balance to the authorized amount. The NCH has an imprest cash fund with an authorized balance of \$750. Year-end closing documents submitted to the Finance Department indicate that the 2002 authorized balance was \$465, and for 2003 the authorized balance was \$392.54. On November 21, 2003, the amount of cash on hand plus unreimbursed purchase receipts totaled \$225.09.
- The NCH did not perform independent quarterly counts of its imprest cash fund.
- Changes in the custodian were not reported to the Finance Department.

The City's Imprest Cash Manual states that all shortages must be reported immediately, in writing, to the Mayor's Office, the Finance Department and the Auditor General in accordance with Executive Order #6, and that changes in custodians must be reported promptly to the Finance Department by a letter typed in duplicate and addressed to the Accounts Division, Accounting Section. Additionally, quarterly audits must be made by supervisors or accounting personnel with the frequency depending on the size and activity of the fund.

By not complying with the City's imprest cash policy, there is a greater opportunity for funds to be misused, lost or stolen.

The imprest cash custodian indicated that the imprest cash fund was only \$468 when she assumed custody in March 2002 and that she did not know what the authorized balance was.

We recommend that Neighborhood City Halls personnel become familiar with the City's Imprest Cash Manual and fully comply with the Manual by immediately reporting the shortage to the Finance Department and the Auditor General, by taking actions to prevent

recurrences, by performing independent quarterly counts, and by reporting promptly any changes in custodians to the Finance Department.

We also recommend that the Finance Department periodically audit the Imprest Cash account and monitor compliance with the imprest cash policies and procedures.

OTHER NON-COMPLIANCE ISSUE

In addition to the foregoing recommendations, we noted that the Mayor's Office did not periodically update the Detroit Resource Management System (DRMS) for physical asset additions and retirements and that the Mayor's Office did not reconcile its book balance to the year-end physical inventory count for fiscal years 2003 and 2004.

The Mayor's Office should take the necessary actions to ensure full compliance with the City's established policy.



KWAME M. KILPATRICK, MAYOR
CITY OF DETROIT
EXECUTIVE OFFICE

ATTACHMENT A

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February 16, 2005

To: Joseph L. Harris, Auditor General

CC: Mayor Kwame M. Kilpatrick
Christine L. Beatty, COS
Ruth Carter, Corporation Counsel

From: Patricia Peoples, Executive Assistant to COS

RE: Audit of the Mayor's Office

Executive Summary

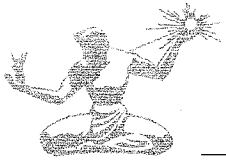
The Mayor's Office has reviewed the Office of the Auditor General's findings in reference to the audit of the Mayor's Office. Below is the response to the complete audit results:

Finding 1 - Improve Internal Controls Over the Mayor's Office Imprest Cash Account

The Mayor's Office concurs with the OAG regarding the enforcement of Imprest Cash internal controls prior to November 2003. The Mayor's Office discovered the embezzlement of Imprest Cash by three of the Mayor's Office employees and took immediate action. The perpetrators were terminated by the Mayor's Office, and charged and convicted by Wayne County Prosecutor. Concurrently the Mayor's Office requested and received training on the Imprest Cash process, selected a new custodian and put controls in place to ensure the integrity of the Imprest Cash process. As of November 2003, purchase slips/receipts have been supplied to the Finance Department to substantiate all expenditures. As of July 2004, internal controls have been implemented to ensure that other departmental funds are not commingled with the Mayor's Office Imprest Cash funds. Also as of July 2004, all authorized signatures including the custodian have been fully trained in the Imprest Cash process. The Mayor's Office is in full compliance with the City's Imprest Cash procedures.

Results of the Follow-Up Work

- In November 2003, the Mayor's Office requested reimbursement totaling \$2159.59. Request for reimbursement of \$48.49 was made in 2004. As policy dictates, original receipts were submitted with reimbursement requests. The Mayor's Office has supplied retained copies of submitted receipts to the OAG.
- An advance Imprest Cash check was given to purchaser in the amount of \$150.00. The amount was based on estimation of purchases. The total amount purchased was \$127.32. A reimbursement of \$22.68 has been requested from the purchaser.



- The Mayor's Office no longer advances Imprest Cash checks and is now in compliance with reimbursement procedure.
- The check for \$5000 was a contribution by DTE Energy for exclusive sponsorship of the State of the City activities. Purchases were made prior to receipt of check, from the Mayor's Imprest Cash account. It was, therefore, surmised that the contribution should be deposited back into the Imprest Cash Account. Recent training has provided the Mayor's Office with the correct policy regarding depositing checks from outside sources. The Mayor's Office is now in compliance with this procedure.
- The Mayor's Office previous custodian, who was terminated and prosecuted for embezzlement, implemented the cash withdrawal of \$1,167.00. Policy has been put in place to ensure that withdrawals will not be made from Mayor's Office Imprest Cash account.
- The Mayor's Office proactively decided not to have cash on hand as part of their Imprest Cash account. On rare occasions, a single activity requires small purchases from several vendors. Normally, this process would involve the issuance of cash. In lieu of this process, the Mayor's Office elected to issue a check made payable to Cash. The Mayor's Office has been advised that this policy is not in compliance with Imprest Cash procedures, therefore, has discontinued this practice. It should be noted that receipts were provided for each transaction.
- The Mayor's Office previous custodian, who was terminated and prosecuted for embezzlement, deposited travel advance/reimbursement checks. This practice was discontinued in July 2004.
- The Finance Department, Risk Assessment Unit, completed the reconciliation of the Mayor's Office Imprest Cash account on June 30, 2004. We will comply with the OAG's recommendations and will assign someone other than the custodian and the person performing the reconciliation to review the monthly bank reconciliation.
- The process of commingling of Imprest Cash funds with other funds has been corrected. On July 23, 2004, \$6486.69 was transferred from the Mayor's Imprest Cash account to the City of Detroit's General fund. As of that date the Mayor's Office has used the Imprest Cash account in accordance with established Imprest Cash policies and procedures.



The Mayor's Office will continue to work with the Finance Department to ensure compliance to Imprest Cash and Travel procedures. Special attention will be given to noncompliance issues and recommendation made by the Office of Auditor General.

Finding 2 – Reconcile Advances to Amounts Paid Back

After the discovery of embezzlement by the Mayor's Office custodian, the Mayor's Office and the Finance Department met and developed a travel advance procedure. In August 2004, the Finance Department implemented a process that ensures all travel advances are reimbursed to the general fund and most importantly that travel advances are not coupled with the Mayor's Imprest Cash. The Mayor's Office staff, the Budget Department, EPU, and Finance Department has been trained on this new process. The Mayor's Office will comply with the OAG's recommendation and will once again meet with the Finance Department in an attempt to determine if there are additional amounts owed.

Finding 3 – Obtain the Finance Department's Pre-Approval for Food and Refreshments

The Finance Department does not have a process in place that ensures immediate (within 5 days) response to pre-approval of food and refreshments. We will comply with the recommendations of the OAG (Finance Directive # 145) and obtain pre-approval for food and refreshments. We will also continue to discuss this issue with the Finance Departments in support of a process that will ensure compliance to the pre-approved policy.

Finding 4 – Certify and Clear Outstanding Travel Advances

Out of the 141 outstanding travel advances, 138 have been reconciled. The majority of the travel advances were reconciled with no reimbursements required. Thirty-eight (38) were reconciled with a reimbursement owed to the city totaling \$2106.66. Thirty-one (31) were reconciled with a reimbursement owed to the traveler totaling \$1682.08. Over ninety percent of unreconciled travel expenses were related to ground transportation. The Budget Department recently addressed this issue with a change to their ground transportation policy. As recommended by OAG, procedures have been put in place to ensure full compliance with Budget Directive 01-2, including the submission of travel expenditures receipts and reimbursement certification forms to the Budget Department within five working days of return from travel.

Results Of the Follow-Up Work

Office of Auditor General's February 2005 review of Mayor's Office Outstanding Travel revealed an additional four new outstanding travel advances, for a total of eleven outstanding travel advances. A review of the eleven outstanding travel advances revealed the following:

- Six (6) had been reconciled and submitted to the Budget Department prior to the recent audit.
- Three (3) remain outstanding and are being actively researched for finalization.



- Two (2) were in the process of being reconciled and have been submitted to the Budget Department.

Finding 5 – Comply with City’s Guidelines for the Use of a Credit Card

The Mayor’s Office continues to aggressively dispute \$11,644.84 in credit card charges. The Finance Department and the Mayor’s Office are in communication with the credit card company regarding this matter. The Mayor’s Office is actively seeking invoices/receipts pertaining to \$48882.80 in unidentified receipts.

The Mayor’s Office has implemented procedures to ensure compliance to the OAG’s recommendation of retaining and submitting all credit card purchase slips/receipts. The Mayor’s Office concurs with the OAG and will take necessary actions to ensure enforcement of Finance Directive #137.

Finding 6 – Comply with the City’s Purchasing Ordinance for Purchase Over \$25,000

As host (City of Detroit) of this event, the Mayor’s Office is still under the opinion that the event provided services to City citizens.

In the future, the Mayor’s Office will seek the opinion of the Purchasing Department, before entering into contacts to ensure compliance with Section 18-5-5 of the City’s Purchasing Ordinance.

Finding 7 - Safeguard the Neighborhood City Hall’s Cash Receipts

The Neighborhood City Hall (NCH) Centers have implemented new processes to ensure compliance to Finance Directive #20. The following are a list of process improvements.

- All NCH locations record cash payments into DRMS and deposited into Treasury within 48 hours of receipt.
- All NCH locations have implemented the process of placing all monies into their safes, upon receipt from customers, therefore, eliminating the storing of cash in unlocked file drawers.
- Accessibility to cash is restricted to those designated to handle cash.
- Receipts are now been issued with each cash/check transaction.
- Checks and money orders are endorsed upon receipt with the utilization of “Mayor’s NCH For Deposit Only” stamp.

Finding 8 – Improve Internal Control Over the Neighborhood City Halls’ Imprest Cash Account

When the Kilpatrick Administration took office in January 2002, there was \$750 in the Neighborhood City Hall’s Imprest Cash account. Because of the limited usage of Imprest Cash, NCH made the recommendation to dissolve the account. The Finance Department accepted NCH’s recommendation. Imprest Cash was balance to the \$750. The account was dissolved in July 2004.



Other Non-Compliance Issues

The Mayor's Office was unable to update DRMS for physical asset additions and retirements because the DRMS inventory did not coincide with the actual inventory within the Mayor's Office. In July 2004, the Mayor's Office conducted a physical assessment of all inventory within the Mayor's Office and placed this information into the DRMS system. A year-end physical inventory count was submitted at that time. The Mayor's Office will comply with the City's established policy by periodically updating the system.